

## **Qualitative Research Results: The New Zealand Cash Economy A study of tax evasion amongst small and medium businesses.**

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### **Social Marketing**

- Social Marketing is a method of communicating key messages to selected audiences using multiple communication strategies to guide people through a behaviour change process. It can use any mixture of:
  - Education
  - Marketing
  - Enforcement

### **Research Objectives**

- To understand attitudes, perceptions, motivations, and behaviour in relation to tax evasion amongst small to medium businesses, the general public, key influencers (ie. tax agents and accountants, trade associations, and lobby groups), and Inland Revenue staff

### **Qualitative Research Participants**

As part of the research we interviewed the following groups of respondents:

- Small to medium businesses (41 interviews),
- The general public (24 interviews),
- Key influencers (i.e. 19 interviews with tax agents and accountants, trade associations, and lobby groups)
- Inland Revenue staff (19 interviews)

### **New Zealand social context**

- While tax is perceived as generally necessary in principle, it is strongly disliked. The tax system in New Zealand is seen as inherently unfair by both small to medium businesses and wage earners interviewed.
- High income earners also feel over taxed, this view has increased with the increase in the top tax rate.
- Low income people feel that high income earners and big business are under taxed.
- There is a perception amongst small/medium business of too much compliance costs (ACC, Statistics NZ, OSH etc) and high taxation (including hidden taxes, petrol, ACC etc).
- They also felt that some other businesses and Corporates were avoiding tax, and some beneficiaries were involved in benefit fraud.

- There is a perception of little value in government spending for the taxes paid. This view in connection with the perception of being over-taxed increases the possibility of tax evasion.

### **Views on the legality of tax evasion.**

- The public did not see their individual actions of enabling cash jobs as contributing to tax evasion.
- Businesses have a stronger recognition that all cash jobs are tax evasion (illegal) but feel some are more socially acceptable.
- Professionally, accountants, tax agents and Inland Revenue staff are more 'black and white'; all tax evasion is illegal and not acceptable. But if they weren't accountants/IRD staff would they differentiate "cashies" in the same way as the public.
- Tax evasion is only seen as a problem from Corporate avoidance or benefit fraud, not cash jobs.

### **Why stop "cashies"?**

- The public and business see no benefit in stopping the cash economy. Customers get cheaper prices and businesses get more income.
- They don't see their community benefiting from the extra tax they would pay, as in their view government has a history of waste.

### **What influences business involvement in the cash economy?**

- Businesses received encouragement and support to enable undeclared cash jobs from family, friends, some customers, and industry peers.
- Family pressure on the business to do cash jobs, or not to do them.
- Often in small businesses the 'wife' does the books and is guardian of what does and does not get through.
- Seems that women are more cautious about endorsing evasion.
- Peers are particularly involved in the education of the types of evasion that are 'safe' for their industry.
- This informal education is resulting in misinformation on tax and tax obligations.

### **Professional support for evasion:**

- Tax advisors and accountants say they would openly discourage evasion and even force taxpayers to go to another accountant if they continued to push tax evasion - none could remember it ever happening.
- Inland Revenue, trade/professional associations and tax advisers tend to be reactive in addressing tax evasion.
- Inland Revenue inflexibility when businesses are facing the hard economic times (cash flow issues) and government increases in compliance cost, increase pressure on business to evade.

- Businesses believe that they will get caught if a paper trail for cash jobs exists and they are audited.
- But businesses state that Inland Revenue has a low audit presence = low chance of audit.

### **Why people take or give cash?**

At a personal level, functional needs, emotional needs, and personal beliefs determine tax evasion behaviour for both customers and small to medium businesses.

- the functional needs - *I need more money now!*,
- the emotional needs - *I need to win against the tax man some of the time!*,
- and personal beliefs - *Tax is theft!*

### **The four types of customers**

- *Initiators* directly ask for a cash price to get the best or lowest possible price.
- *Acceptors* will accept a cash price if offered but will not initiate a cash deal, as they feel uncomfortable with the process and/or they fear rejection or insulting the business involved.
- *Collaborators* know the business and will negotiate a cash deal advantageous to both the customer and the business.
- *Autos* are likely to be customers or businesses, involved in multiple small cash jobs (of approximately less than \$100), and bartering.

### **There may be a fifth group**

- It is possible that quantitative research would find a fifth group of 'Moral Objectors'. That is, customers who have strong personal or moral motivations for not accepting or collaborating in cash deal with businesses.

### **The two main types of evaders**

- Those who do pay tax and therefore their business is operating to some extent within the tax system. There are 5 groups.
- Those who opt out of the tax system, this may be actively or passively. There are 2 groups.

NB: There is an area of cross over between these groups at the edge.

### **The groups inside the system**

- Business focussed (non-evaders) who do not engage in tax evasion due to their long or short term business or lifestyle goal of either making a success of the business or enjoying lifestyle of the business (e.g. working the land, creating art).
- Opportunists who undertake undeclared cash jobs: within this large group there are three subgroups with different motivations for doing cashies:
  - *business needs* (e.g. to employ the right person, or avoid the administration hassles of small jobs),

- *self needs* (e.g. Self-rewarders who see undeclared cash jobs as a small perk or Survivors who need undeclared cash income to make enough to live on) and
  - *community needs* (this reflects the customer autos group).
- Rebalancers who over-claim expenses due to perceptions of being over taxed or to offset under-claiming in other areas.
  - Victims who have been unable to pay tax owed, because of external circumstances such as bad debtors or their business no longer trading.
  - Calculating Sharps who are extreme evaders strongly focused on their financial success through evading their tax obligations.

### **The 2 groups outside the system**

1. .Those who actively opt out of the tax system. These may be:
  - Calculating Sharps who have been caught tax evading, or
  - Survivors who can no longer make a living in the tax system, or
  - Victims who were unable to negotiate an acceptable or manageable settlement with Inland Revenue.
2. .Those who passively opt out of the tax system. These tend to be:
  - businesses that lack knowledge about their tax obligations, for example wage earners who become self employed, or
  - young people entering the job market as self employed.

### **Summary of research:**

- Tax isn't popular, and in most cases cash jobs are seen as socially acceptable.
- Only the "Acceptors" group feel dishonest when asking for a cash job, the others don't.
- Most businesses seem to do some cash jobs.
- The non-evading group *seems* small, but so do the extreme evaders (ie. calculating sharps).

### **Possible future actions:**

- More research to 'size' the different segments, understand strength of attitudes and behaviour, size of evasion, and consider the feasibility of using social marketing.
- Look at education products to help businesses better manage their businesses processes and review systems.
- Raise the presence of audits in different industries to increase the perception of being caught and encouraging compliance.